

Derek Stuart, Fund Manager and Co-founder of Artemis talks culture, career highs and sports gear with Richard Romer-Lee at Square Mile.



# TALKING WITH

Derek Stuart →



## HOW DID YOU GET INTO FUND MANAGEMENT?



At school, I enjoyed economics and history – I know, it's a bit sad! I did an economics degree and in my 4th year my father suggested a job in finance. I looked at a variety of roles in finance. Corporate finance, trading, fund management. Fund management offered the complete package of company analysis, but also of creating the portfolio to generate the returns. I looked at 3 companies – Ivory and Sime and Baillie Gifford which were premier firms in Edinburgh, and Mercury the best in London. I took the job with Ivory and Sime.

## AFTER MORE THAN 25 YEARS IN THE MARKET WHAT SUSTAINS YOUR DRIVE FOR INVESTING?



Firstly, natural curiosity – people, business and life experiences – markets and companies are fascinating.

Secondly, I don't want to let the side down. I am having a tough time, performance wise, at the moment. At times like these, there's nothing worse than knowing clients, including partners, friends and family have money invested with me. This is the first period where my 3 year numbers look poor. It's uncomfortable.

## WHAT'S THE KEY TO RUNNING A SUCCESSFUL FUND MANAGEMENT BUSINESS?



Ownership and culture are key. I don't think fund management businesses should be listed due to the pressure of short-term earnings. I don't own any asset managers in the fund at the moment as it would be making a call on the market. It's hard to get the culture as many have been drawn together through deals. In terms of ownership – history tells the story. In 1990 Ivory and Sime and Baillie Gifford had roughly the same assets under management.

They both started out as partnerships with great cultures. Baillie Gifford has gone on to be a fantastic business, remaining as a partnership. Ivory and Sime became a PLC. While it had the talent, on reflection it lacked the management team to manage the talent.

Now Artemis is an umbrella organisation with individual franchises of high conviction fund managers who can invest as they see fit. It works because there is no house style or views on the market which are imposed on people. But there is a collegiate approach – we can draw upon one another and it works as a partnership. For example in a matter of days I saw Devro with Mark Niznik, BT with Adrian Frost and Wood Group with Ed Leggett. Communication is strong and we invest in each others' funds.

## WHAT LED TO THE SETTING UP OF ARTEMIS?

Mark Tyndall, John Dodd, Lindsay Whitelaw and I were unhappy at Ivory and Sime, which was leaking talent.

We wanted to change things and create a firm where the managers had the freedom to perform. Typically we went after mid caps and smaller companies – when the research on the street was saying buy Vodafone. We also wanted to invest in our own funds – which was deemed to be unusual in those days. I guess we were entrepreneurial, wanted to drive our own franchise, but were team players and liked working with each other.



## SO IS YOUR INVESTMENT STYLE WRONG?

There is significant disruption from the likes of Google, Amazon and Apple. Disruptive technology has changed businesses across many industries from media through to retail. However, our view is, our style – turnarounds, special situations and value – is absolutely still relevant. There are more value traps around than say 5 to 10 years ago. For example, retailers are not being re-rated as people are buying through Amazon. Last year was tough, but we looked in depth at what we do and whilst recognising the changes in the investment landscape we believe the basic philosophy still holds true.





## WHAT MAKES A GOOD FUND MANAGER ?

Being naturally inquisitive, with a bit of scepticism, not emotional – I remember the discipline of Anthony Bolton. There is so much noise, especially in the companies I buy, which is generally negative. You need to cut through the noise – and use plenty of common sense.

You also need patience, and to be given the time to do it. There are not many businesses where that is the case.

## WHAT'S THE BEST ADVICE YOU HAVE BEEN GIVEN ?



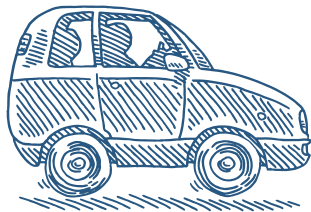
Be patient – by Ian Rushbrook at Ivory and Sime, who was a very smart investor. He was also, for a long time quite bearish. I suppose I have grown up recognising the risks of investing, having started in the market in 1990 into the teeth of 1991/92.

Peter Hewitt, who was my first boss, advised me to get companies on your side and they will be more informative. It's not always the answer, but how they answer.

## WHAT'S YOUR VIEW ON THE RISE OF PASSIVE INVESTING ?

I understand it has a place in the market. Some investors are good, some aren't. But in the long term a good manager can make a big difference.

The odd thing is that in life, if the price of a TV or car increased by 20%, people would not buy as many. Yet in passive investing, people want to buy more.



## HOW DO YOU RELAX ?

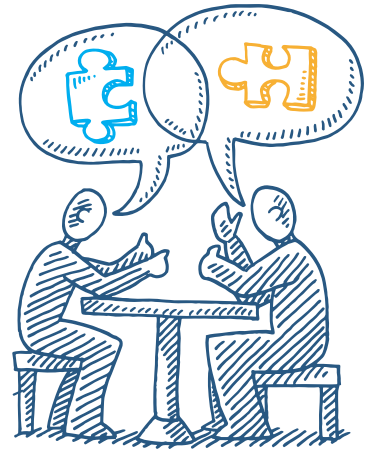
With my family – my wife and three daughters – and sport. I love skiing, cycling, running, hiking – I love the gear! I am an equipment junkie!



## DO YOU THINK FUNDS SHOULD BE RUN BY INDIVIDUALS OR PAIRS ?

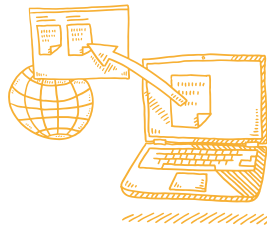
Absolutely pairs. Funds go through good and bad times and it is important to have a partner to reflect with during these periods. It took me a while to find the right partner. Andy Gray is a better fund manager than me – he's more analytical and unemotional.

The star fund manager culture and desire to move away from committee base decision-making means that many funds are run by one manager. But if you have two people that buy into the process, they will see things differently which can lead to better decisions.



## WHAT IS THE MOST EXTRAORDINARY THING YOU HAVE SEEN ?

It has to be the dot com bubble. I am pretty sure that when Whittards of Chelsea announced they had launched a website its shares jumped 50%. People were jumping on the band wagon – it was the craziest thing I have ever seen. It was an interesting time as I struggled



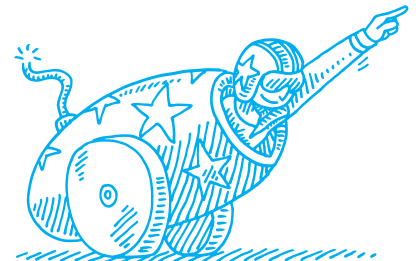
to understand why things were going up. It's interesting though, as what was promised in 2000 is happening now – Amazon, Google...

In the US, many fund managers are a lot older – they are more experienced and make less mistakes. That's what I'm working towards.

I think it's interesting how many smart people believe the market is topy at the moment – I sympathise, but as someone who looks for things that are out of favour, there's always something to buy.

## WHAT HAS BEEN THE SEMINAL MOMENT IN YOUR CAREER ?

Setting up Artemis. It's hard to convey exactly what it's like. The rush of excitement and trepidation. The first few years were some of the happiest times of my life. It was an incredibly exciting time. We did what we believed was right for our investors and we just got on with it. That excitement is still here today – even though we are somewhat larger.



## WHAT ADVICE WOULD YOU GIVE TO SOMEONE STARTING OUT TODAY ?

Find out and recognise what you are good at and stick to it. Read lots of books, meet lots of fund managers, get to know your style and stick to it. For example, Anthony Bolton for value. Know what you are good at and what you are not. I try not to call the macro – there are too many outcomes.



This publication is for the use of Professional Advisers and other regulated firms only and is issued by, and remains the copyright of Square Mile Investment Consulting and Research Limited (SM). No part of this publication may be reproduced, distributed, or transmitted in any form or by any means, including photocopying, recording, or other electronic or mechanical methods, without the prior written permission of SM. The views expressed are not necessarily those of SM and SM does not accept any responsibility for errors, inaccuracies, omissions or any inconsistencies herein.